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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

2008 NOV 20 P 4:57

AZ CORP COMMISSION
DOCKET CONTROL


IN THE MATTER OF THE APPLICATION OF
CHAPARRAL CITY WATER COMPANY, INC.,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO. W-02113A-07-0551

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony
of Elijah O. Abinah, and Marvin E. Millsap of the Utilities Division in the above-referenced matter.

RESPECTFULLY SUBMITTED this 20th day of November, 2008.


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Arizona Corporation Commission
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Phoenix, Arizona 85007

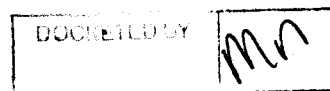
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foregoing filed this 20th day of
November, 2008 with:

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Phoenix, AZ 85007

Arizona Corporation Commission

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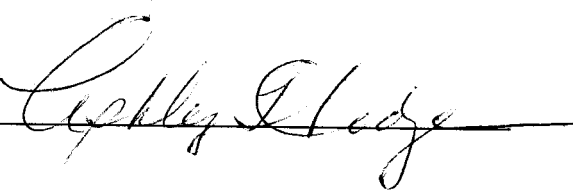
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SURREBUTTAL

TESTIMONY

OF

ELIJAH O. ABINAH

MARVIN E. MILLSAP

DOCKET NO. W-02113A-07-0551

**IN THE MATTER OF THE APPLICATION OF
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NOVEMBER 20, 2008

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

KRISTIN K. MAYES

Commissioner

GARY PIERCE

Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02113A-07-0551
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THEREON)

SURREBUTTAL

TESTIMONY

OF

ELIJAH O. ABINAH

FOR THE

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

NOVEMBER 20, 2008

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Elijah O. Abinah. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. Where are you employed and in what capacity?**

7 A. I am employed by the Utilities Division ("Staff") of the Arizona Corporation Commission
8 ("ACC" or "Commission") as Assistant Director.

9
10 **Q. How long have you been employed with the Utilities Division?**

11 A. I have been employed with the Utilities Division since January 2003.

12
13 **Q. Please describe your educational background and experience.**

14 A. I received a Bachelor of Science degree in Accounting from the University of Central
15 Oklahoma in Edmond, Oklahoma. I also received a Master of Management degree from
16 Southern Nazarene University in Bethany, Oklahoma. Prior to my employment with the
17 ACC, I was employed by the Oklahoma Corporation Commission for approximately eight
18 and half years in various capacities in the Telecommunications Division.

19
20 **Q. What are your current responsibilities?**

21 A. As Assistant Director, I review submissions that are filed with the Commission and make
22 policy recommendations to the Director regarding those filings.

23
24 **Q. What is the purpose of your testimony?**

25 A. The purpose of my testimony is to provide a policy recommendation on the methodology
26 proposed by Staff witness Gordon Fox.

1 **Q. What is your recommendation?**

2 A. In light of the Company's opposition to Method Two, Staff recommends that the
3 Commission also consider Method One, which is consistent with Decision No. 70441.

4
5 **Q. Can you please briefly describe Decision No. 70441?**

6 A. Decision No. 70441 came as a result of the appeal filed by the Company and the
7 subsequent remand by the Court of Appeals.

8
9 **Q. Are you providing testimony as to financial and technical analysis?**

10 A. No.

11
12 **Q. Have you reviewed Mr. Fox's testimony that was filed on October 3, 2008, as it**
13 **relates to the methodologies in calculation operating income?**

14 A. Yes.

15
16 **Q. Can you briefly describe those methodologies?**

17 A. Yes. On page 3 lines 13 through page 4 line 3, Mr. Fox describes the method of
18 calculating operating income consistent with Decision No. 70441. (Method One)

19
20 On page 4 line 14 through page 10 line 22, Mr. Fox describes the method of calculation
21 operating income consistent with the general framework of Method One with some minor
22 changes. (Method Two).

23
24 In addition, I reviewed page 10 lines 15 through 17 of Mr. Fox's testimony as it relates to
25 the difference in the revenue requirements between Method One and Method Two.

1 **Q. Can you please provide the differences in the dollar amount as to Method One and**
2 **Two?**

3 A. According to Mr. Fox's testimony the difference in revenue requirement amount is
4 \$318,000 or 3.6 percent.

5
6 **Q. Did you review Mr. Bourassa's testimony on behalf of the Company for the proposed**
7 **Cost of Capital?**

8 A. Yes.

9
10 **Q. Did Mr. Bourassa agree with Staff's proposed Methodology?**

11 A. No. Mr. Bourassa disagreed with Staff's Methodology.

12
13 **Q. In light of the Company's opposition to Staff's proposed Methodology, what is**
14 **Staff's recommendation?**

15 A. Staff recommends that the Commission also consider the method set forth Decision No.
16 70441.

17
18 **Q. In light of the Company's opposition, what is the effect on the revenue?**

19 A. Staff recommend revenue decrease is \$318,000.

20
21 **Q. What was Staff's recommended revenue increase under Method Two?**

22 A. Staff recommended revenue increase as calculated by Method Two was \$1,735,265.00

1 **Q. What is Staff's recommended revenue increase?**

2 A. Staff recommended revenue increase, based on Method One should be \$1,417,265.

3

4 **Q. Does this conclude your testimony?**

5 A. Yes it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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BASED THEREON)

DOCKET NO. W-02113A-07551

SURREBUTTAL

TESTIMONY

OF

MARVIN E. MILLSAP

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 20, 2008

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EXECUTIVE SUMMARY
CHAPARRAL CITY WATER COMPANY, INC.
DOCKET NO. W-02113A-07-0551

The surrebuttal testimony of Staff witness Marvin E. Millsap responds to various parts of Mr. Hanford's and Mr. Bourassa's rebuttal testimonies. Staff is making one change to the recommendations presented in its direct testimony.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Marvin E. Millsap. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Marvin E. Millsap who filed direct testimony in this case?

A. Yes I am.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony in this proceeding is to respond to the Company's proposed surcharge allowing Chaparral City Water Company, Inc. ("CCWC") to collect the additional revenues not collected during the time period of the Appeal and Remand process authorized by Decision No. 70441. Further, to respond to Company witnesses Mr. Hanford and Mr. Bourassa rebuttal testimonies.

Q. What is the dollar amount the Company requested in its tariff filing?

A. \$51,542.00.

Q. Does Staff agree with the amount requested?

A. No. Staff calculates that the un-recovered balance of additional revenues resulting from the remand decision is \$38,562 (\$36,396 plus interest of \$2,166) through December 1, 2008, Staff calculates the accumulated interest on \$36,396 to be \$2,166.

1 **Q. How many thousands of gallons of water were sold in 2007 per CCWC's annual**
2 **report?**

3 A. 2,005,550.
4

5 **Q. What is Staff's recommended surcharge amount?**

6 A. The surcharge should be \$0.19228 per thousand gallons sold until the \$38,562 has been
7 collected in full.
8

9 **RESPONSE TO MR. HANFORD'S REBUTTAL TESTIMONY**

10 **Q. Has Staff reviewed Mr. Hanford's rebuttal testimony concerning Staff's**
11 **recommendation that all of the proceeds from the Settlement with the Fountain Hills**
12 **Sanitation District ("FHSD") be allocated to the ratepayers?**

13 A. Yes.
14

15 **Q. Does Staff agree with Mr. Hanford's rebuttal testimony?**

16 A. No.
17

18 **Q. Is Staff's recommendation consistent with prior Commission decisions?**

19 A. Every case that comes before the Commission is different and is considered upon the
20 merits, facts and circumstances related to that case and that case alone.
21

22 **Q. Did CCWC seek Commission guidance on how the settlement proceeds should be**
23 **treated?**

24 A. No.

1 **Q. Please respond to Mr. Hanford's rebuttal testimony that "The bottom line appears**
2 **that Mr. Millsap cannot explain the basis for his explanation". ("Hanford Rb") at 9.**

3 A. Mr. Millsap's recommendation for rate case expense is based on the classification of the
4 utilities involved and also mentions other water companies in Arizona so this is a
5 mischaracterization of Mr. Millsap's response to CCWC's data request.

6
7 **Q. Please respond to Mr. Hanford's rebuttal testimony that "For one thing, Staff**
8 **bombarded us with discovery in this rate case, serving more than 300 data requests**
9 **(counting subparts)". ("Hanford Rb") at 9.**

10 A. Staff has an obligation to the Administrative Law Judge, and the Commission expects,
11 Staff to perform adequate analysis and review in order for it to make appropriate
12 recommendations. There are no rules or regulations that limit the amount of discovery. In
13 the instant case many follow-up questions were required.

14
15 **Q. What is the Company's position concerning rate case expense?**

16 A. That it should be amortized.

17
18 **Q. What is the Staff's position concerning rate case expense?**

19 A. Staff believes that it should be normalized.

20
21 **RESPONSE TO MR. BOURASSA'S REBUTTAL TESTIMONY**

22 **Q. Has Staff reviewed Mr. Bourassa's changes in CCWC's revenue requirement**
23 **outlined in his rebuttal testimony? ("Bourassa Rb") at 1-3.**

24 A. Yes.

1 **Q. Does Staff agree with Mr. Bourassa's changes?**

2 A. No, Staff believes that a fifty-fifty sharing of the settlement proceeds is not appropriate.

3

4 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony "However, Staff understates**
5 **its adjustment to accumulated depreciation for transportation equipment"?**
6 **("Bourassa Rb") at 11.**

7 A. Yes.

8

9 **Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?**

10 A. No, CCWC's response to data request MEM-7.5 lists the original cost and accumulated
11 depreciation for each vehicle, which totals \$43,666.60 rather than equals the original cost
12 of \$274,001 as would be the case if these vehicles were fully depreciated.

13

14 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony that "... I computed**
15 **amortization (referring to the FHSD settlement proceeds) for 2005 and 2006 using a**
16 **half-year convention, whereas Staff computed amortization for 2005 and 2006 using**
17 **a full-year convention"? ("Bourassa Rb") at 13.**

18 A. Yes.

19

20 **Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?**

21 A. No. The half-year convention is appropriate for current year additions to asset classes in
22 which the exact acquisition date is either not known or if it is convenient to just assume
23 that all additions were at mid-year on the premise that half of the cost occurred before and
24 half after mid-year so the average depreciation or amortization would be the same as
25 computing it from the actual acquisition date. This is not appropriate for the FHSD
26 settlement payment because there is only one date involved – the date the proceeds were

1 received. Since the proceeds were received early in February of 2005, Staff began
2 amortization from January 1st, which increased the amortization for 2005 by \$12,667 more
3 than it would have been if February 1st had been used, but had no 2006 test year effect.
4

5 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony statement: "Is Staff's**
6 **depreciation expense different than the company's?" ("Bourassa Rb") at 16.**

7 A. Yes.
8

9 **Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?**

10 A. Staff agrees that this difference is attributable to the 2.8 percent General Office Plant
11 allocation rather than the 4.0 percent used by Staff, which it still considers to more
12 appropriately match test year revenues, operating expenses and plant.
13

14 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony concerning Staff's**
15 **adjustments to normalize chemicals, repairs and maintenance and insurance**
16 **expenses? ("Bourassa Rb") at 31 - 32.**

17 A. Yes.
18

19 **Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?**

20 A. No. Normalizing is a basic ratemaking principle. Its purpose is to make the test year as
21 normal as possible for the purpose of setting rates that are just and reasonable for the
22 ratepayers and investors.
23

24 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony concerning Staff's**
25 **adjustments to normalize insurance expense?**

26 A. Yes.

1 **Q. What does Staff recommend regarding insurance expense?**

2 A. Staff recommends that the negative \$1,294 be used for the test year instead of a
3 normalized amount.

4
5 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony concerning Staff's**
6 **adjustments to normalize chemicals expense?**

7 A. Yes.

8
9 **Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?**

10 A. No.

11
12 **Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony concerning Staff's**
13 **adjustments to normalize repairs and maintenance expense?**

14 A. Yes.

15
16 **Q. Does Staff agree with Mr. Bourassa's rebuttal testimony?**

17 A. No.

18
19 **Q. Does this conclude your surrebuttal testimony?**

20 A. Yes, it does.